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SUBJECT: COALITION RELEASES EMISSIONS TRADING POLICY

Classified By: POLITICAL COUNSELOR JAMES F. COLE. REASON 1.4 (D)

11. (SBU) SUMMARY: The Coalition has decided to support an emissions trading scheme (ETS) "probably" by 2012, defying leader Brendan Nelson who wanted to make the introduction of an ETS conditional on the actions of other countries. This is a victory for Shadow Treasurer Malcolm Turnbull, and moderate Liberals, who are determined not to stray far from public sentiment on climate change. The Coalition and ALP ETS policies are similar - the main difference is timing, with the ALP's ambition a 2010 start date. The Coalition is hoping media attention will now shift to the ALP which has the far more difficult task of implementing an ETS. END SUMMARY.

#### COALITION DIVISION

12. (SBU) For the previous three weeks, Nelson had flip-flopped on support for an ETS, while Turnbull, Deputy Leader Julie Bishop and Shadow Environment Minister Greg Hunt stuck to the Howard government policy - an emissions trading scheme by 2012 regardless of the outcome of international negotiations to establish a post-Kyoto global agreement on climate. The Coalition party room was divided by those (generally Moderates) who wanted to retain the Howard policy, and those (mainly the Right) who supported the Coalition adopting a tougher stance, including disowning the ETS concept. The media quickly focused on disunity in the Coalition, shielding the government from hard questions on the challenges of implementing an ETS. Nelson and his office exacerbated this by continuing to brief journalists about his plan to toughen Coalition policy - i.e. making the start of an ETS conditional on global responses, without first garnering unified support for changing the party's stance.

#### NELSON FALLS INTO LINE

13. (C/NF) On July 29, Shadow Cabinet met in Canberra to develop a position on ETS. The momentum appeared to be with Nelson, with Turnbull saying earlier in the week that an ETS should not be introduced until it was in "Australia's interests" to do so, and Hunt telling us that he expected a "middle ground" compromise outcome. Nelson, however, emerged from the meeting to announce that the Coalition supported a commencement date of 2012 for an ETS, but that the design of ETS should reflect what the rest of the world is doing, which turned back the clock to the original Howard policy, with room to oppose some design details if the international discussion breaks down. Nelson maintained a 2010 start date was irresponsible, but said he was willing to negotiate with Rudd. "If he has a convincing argument, we would like to hear it." The climate change skeptics and hard-liners in Shadow Cabinet reportedly did not offer much resistance. Hunt told us that the Shadow Cabinet had crafted a very detailed policy on Tuesday, and faced with that, the disgruntled party room fell into place relatively easily. Hunt attributed the success of the moderate position to a policy of holding their nerve and not floating their position too early. He appeared to confirm dissatisfaction in the party room over Nelson's public musings on what a policy should be. "I don't think the leader will be freelancing in the future," he said.

#### NELSON FLIP-FLOPS AGAIN

14. (SBU) On July 30, following a tense Coalition party room meeting, Nelson told the press that his MPs had backed Shadow Cabinet's position. In his written statement, he said the Coalition has a "three pillars approach" to combating climate change: A clean energy policy; international pressure; and an ETS. The Coalition policy says the ETS must take into account QETS. The Coalition policy says the ETS must take into account the outcome of the Copenhagen meeting at the end of 2009. The Coalition said it would vigorously scrutinize the Rudd government's legislation and "not support a scheme that will disadvantage Australia's national interest and competitive advantage". Hunt said that the Coalition still reserved the right to challenge key elements of implementing legislation, if they led to a "bad ETS" that did not protect Australia's cleaner energy developments or overly exposed Australian families to escalating costs. The Coalition believes an ETS should commence "not before 2011 and probably by 2012". The "probably" was a concession to those backbenchers angered that Nelson had not taken a tougher stand in Shadow Cabinet. This was reported as another Nelson flip flop, resulting in Nelson being put on the defensive again. In a fiery television interview July 29, Nelson said to the interviewer: "Are you suggesting that it should start in 2012 if it's not right?" A major wildcard in the Coalition policy will be their inclusion of the outcome of the Copenhagen negotiations in the criteria for support of an ETS. While consistent with the position of the former Howard government, there is wide latitude to fold in any outcome of the UNFCCC process into a decision to support or reject an ETS.

LIBS MUST TURN ATTENTION TO ALP

15. (SBU) COMMENT: The Shadow Cabinet meeting was held the same day a Newspoll showed overwhelming support for an ETS. We believe this focused the minds of members in the Shadow Cabinet on the political costs of abandoning support for an ETS (a Liberal MP told us before the Shadow Cabinet meeting that "wiser heads" would prevail). Essentially, the tumult of the last three weeks merely resulted in the Coalition supporting the policy it took to the 2007 election. Nelson's credibility among his colleagues, however, has taken a significant hit during this period. It has been an awful three weeks for him. His flip-flopping reflects his tenuous hold on the leadership. The Right (including his key numbers man and climate change skeptic Senator Nick Minchin) wanted him to take a tougher line, but Moderate Liberals, the public and media are strongly in favor of an ETS. The wriggling has fueled doubt among Liberal MPs (including some of those that voted for Nelson in the leadership ballot) about his discipline and political judgment. The odds of Nelson being replaced by the end of the year have shortened considerably. If, however, the Opposition can establish some form of unity on the ETS question and put their squabbling aside, scrutiny will inevitably turn back to the Rudd government which has the unenviable task of releasing the hard details on what the design and impacts of an ETS will look like over the next few months. END COMMENT.

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